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In the Balance | July 2018
https://www.stlouisfed.org/publications/in-the-balance/2018/distressed-families-save-medicaid

Medicaid Can Increase Saving by Distressed Households

KEY TAKEAWAYS

- Lower-income families either saved more or kept their saving habits the same after becoming eligible for Medicaid, a survey analysis found.
- Financially stressed families chose to save more from tax refunds after Medicaid eligibility.
- Low-income families that weren't as financially stressed didn't make major changes to saving choices after Medicaid eligibility.

Emily A. Gallagher

This is the first article in a two-part series on the effect Medicaid eligibility has on saving habits.

An analysis of survey data showed low-income families in financial stress who became eligible for Medicaid chose to save more of their tax refund, while low-income households that weren't in as much distress did not alter saving plans.

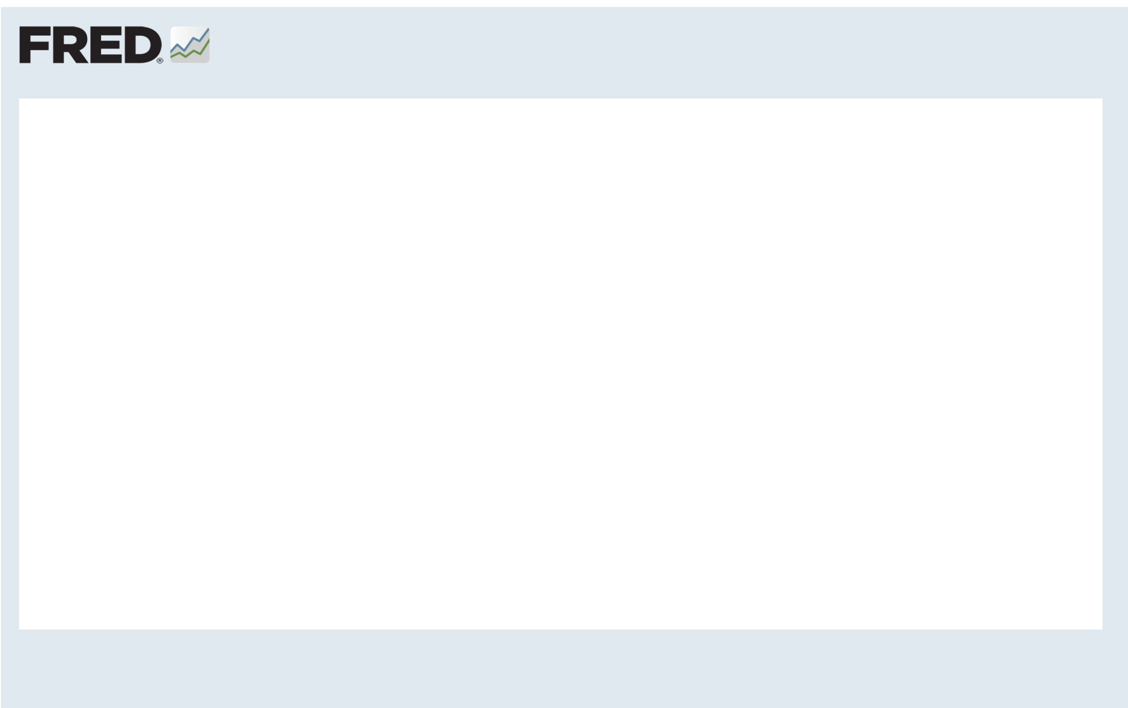
Views on whether their Medicaid access would be temporary likely factored into the families' choices, as the next issue of In the Balance will discuss.

How public insurance programs affect families' saving habits has become a key question at a time when Medicaid rolls have grown due to the Affordable Care Act, and when the personal savings rate continues to decline.

As Figure 1 shows, the personal savings rate in the U.S. has fallen since the 1960s, from 11 percent in January 1960 to 7 percent in January 2018. (This information was updated from the original to reflect U.S. Bureau of Economic Analysis revisions to personal savings rate data.) Chances are, unless you are among the wealthiest 10 percent, your family is saving less today than it would have a few decades ago.[1]Saez, Emmanuel; and Zucman, Gabriel. "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data." *The Quarterly Journal of Economics*, 2016, Vol. 131, No. 2, pages 519–78.

Figure 1

U.S. Personal Saving Rate since 1959



Source: U.S. Bureau of Economic Analysis

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While the fall in the savings rate may be attributed to a number of causes, of particular interest is the role of public insurance programs, like Medicaid, unemployment and disability.[2]Gruber, Jonathan; and Yelowitz, Aaron. "Public Health Insurance and Private Savings." *Journal of Political Economy*, 1999, Vol. 107, No. 6, pages 1249–74. Maynard, Alex; and Qiu, Jiaping. "Public Insurance and Private Savings: Who is Affected and by How Much?" Journal of Applied Econometrics, 2009, Vol. 24, No. 2, pages 282–308. As an influential 1994 paper put it: "The design of social insurance programs may exert as large an effect on saving behavior as tax policy."[3]Hubbard, Robert; Skinner, Jonathan; and Zeldes, Stephen. "Expanding the Life-Cycle Model: Precautionary Saving and Public Policy." *The American Economic Review*, 1994, Vol. 84, No. 2, pages 174-9. A common criticism of public insurance programs is that they may reduce incentives to save as a precaution against bad events, like a job loss or an injury.

Understanding the effect of public insurance programs on savings behavior is particularly important following the implementation of the Patient Protection and Affordable Care Act (ACA) in 2014, after which an additional 16.3 million people joined the Medicaid rolls. Twenty-one percent of the U.S. population now receives health insurance coverage through Medicaid.[4]According to Medicaid.gov, over 16.3 million additional individuals were enrolled in Medicaid (including the Children's Health Insurance Program, or CHIP) in October 2017 as compared to the period prior to the start of the first Marketplace open enrollment period (July through September 2013). According to Census.gov, the U.S. population was 326.4 million in October 2017. Medicaid income eligibility limits are available from the Kaiser Family Foundation at: https://www.kff.org/data-collection/trends-in-medicaid-income-eligibility-limits/

Income Eligibility for Medicaid Varies Greatly

My co-authors and I asked in a working paper how Medicaid eligibility affects household savings rates.[5]Sabat, Jorge; Gallagher, Emily; Gopalan, Radhakrishnan; and Grinstein-Weiss, Michal. "Medicaid and Household Savings Behavior: New Evidence from Tax Refunds." Working Paper. May 16, 2018. https://ssrn.com/abstract=3052026 or http://dx.doi.org/10.2139/ssrn.3052026

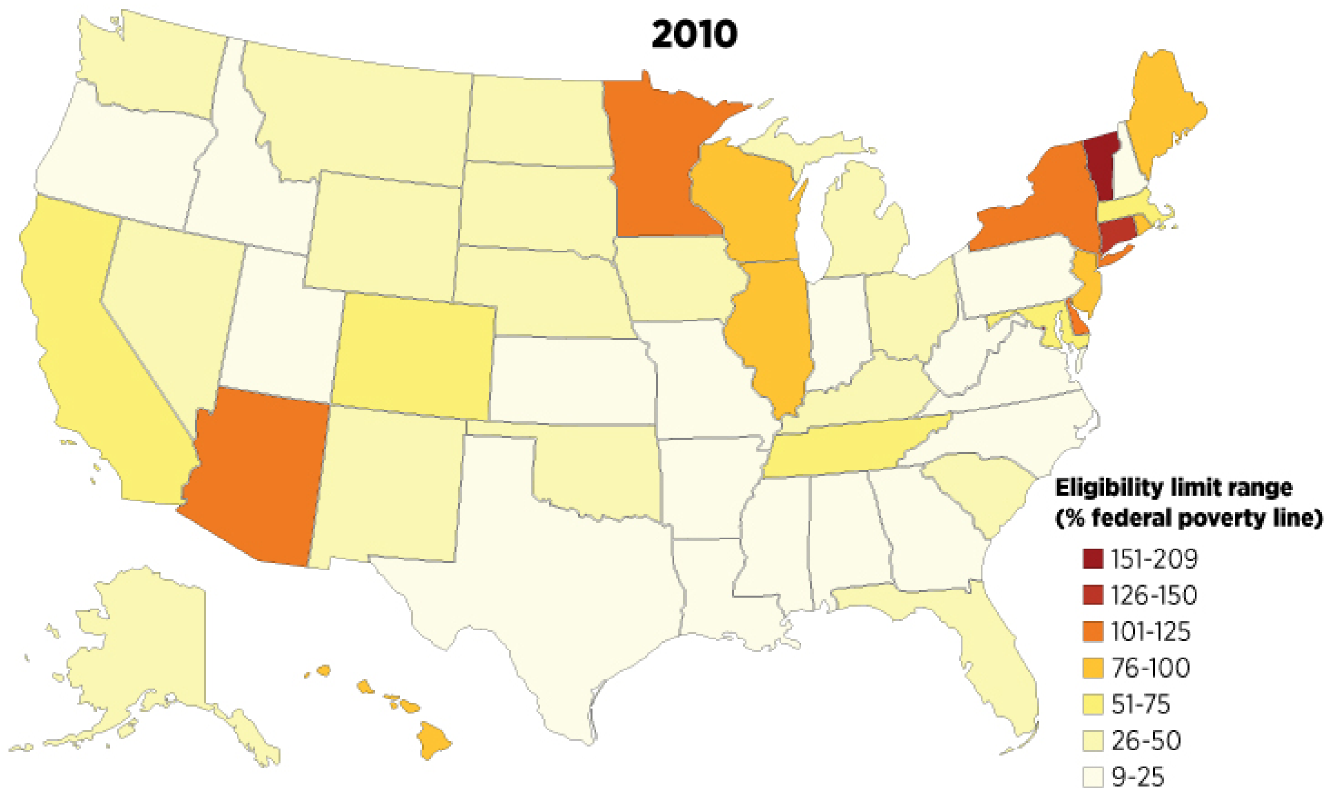
We took advantage of a natural experiment created when some states opted to expand Medicaid eligibility under ACA, while others did not, which allowed us to contrast savings behaviors.[6]In particular, states that expanded Medicaid allow able-bodied adults earning up to 138 percent of the federal poverty line to enroll. States that did not expand Medicaid typically have very low income limits. For example, as of 2015, Virginia had an income limit of 45 percent of the poverty line for parents and no access for childless adults.

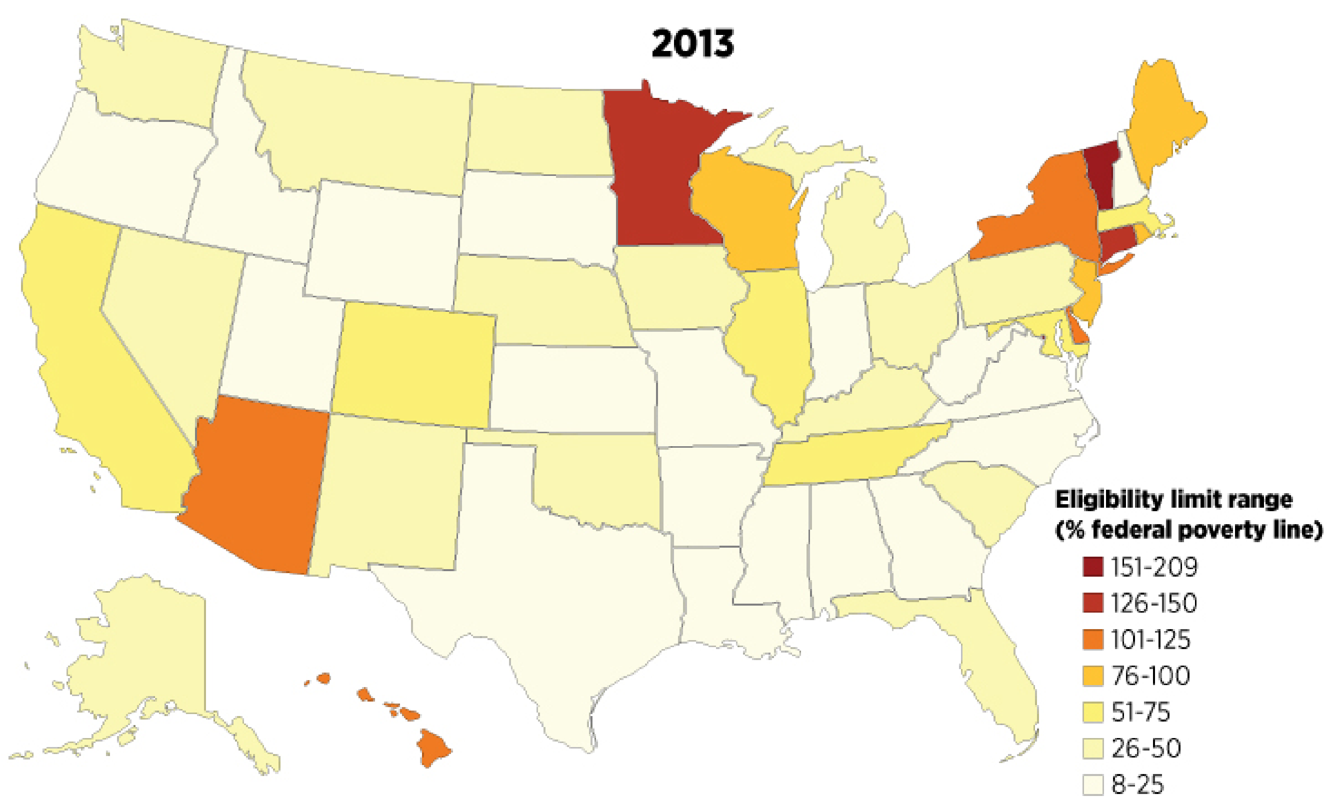
The diverse decisions of state governments on Medicaid expansion created a high degree of variation in the income eligibility limits for Medicaid across states and across time during 2013-17.

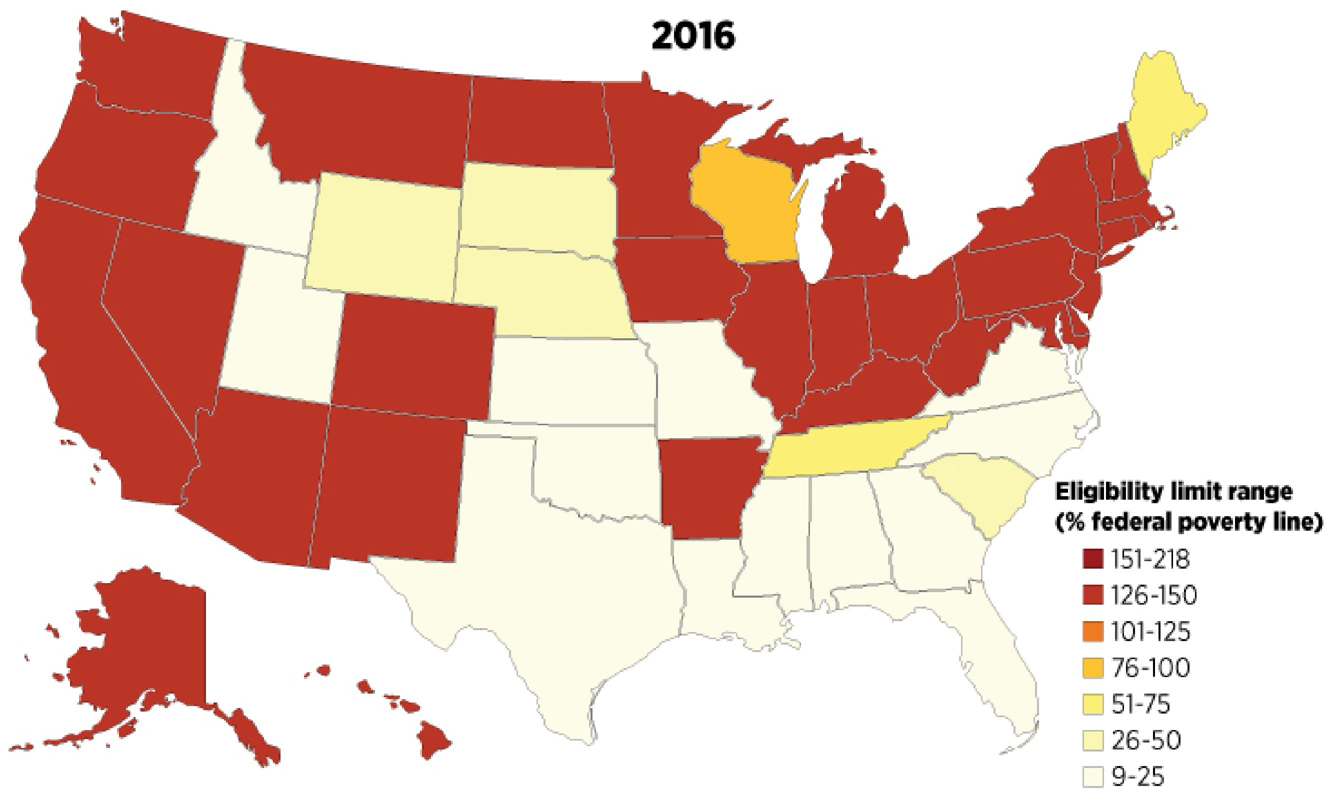
This variation is illustrated in Figure 2, which shows that state eligibility limits changed very little from 2010 to 2013 but changed dramatically after 2014. By 2016, for example, about half of the states have very high eligibility limits (darker) while the rest have very low eligibility limits (lighter). Generally speaking, the darker states chose to expand Medicaid under the ACA.

Figure 2

State Medicaid Eligibility Limits by Year







This figure shows the income limit for an able-bodied adult to receive Medicaid in each state by year. Eligibility limits are presented as ranges of income, measured as a percentage of the federal poverty line (FPL). Darker shades represent higher limits. Since eligibility limits often differ for parents and childless adults within a state, we took the average of the two. For example, if a state offers Medicaid to parents earning up to 100 percent FPL but does not offer Medicaid to childless adults (i.e., 0 percent FPL), that state is assigned an eligibility limit of 50 percent FPL.

Our research also draws on a unique database of survey responses from 67,000 low-income households, with data on households that includes the size of the tax refunds they were to receive, their plans for using the refunds, and financial distress measures. The data also allowed us to distinguish which families are eligible for or receive Medicaid. (See the methodology.)

Struggling Families Save More with Eligibility

It turns out that becoming eligible for Medicaid tends to mean a little more money in the bank for low-income families in financial stress: They planned to save about $93 more of their tax refund, on average. Meanwhile, other low-income families (those that are not quite as financially distressed) did not appear to significantly alter their savings behavior in response to Medicaid. Together, these findings signal that the ACA's Medicaid expansion is unlikely to negatively affect low-income household savings rates.

In particular, although our data set cannot address questions of long-term savings, we showed that a one standard deviation, or a 36-percentage-point, increase in the intended refund savings share at tax time is associated with the household having an additional $161 in liquid assets six months later. The change is substantial relative to the median amount ($810) of liquid assets in our sample of low-income households.

By the Numbers

16 million	Additional individuals enrolled in Medicaid in October 2017 after Affordable Care Act took effect
$810	Median amount of liquid assets for low-income households in sample
$1,790	Average dollar amount of tax refund for low-income households
67 percent	Average share of tax refund low-income financially distressed households use for saving or debt repayment
$93	Average dollar amount increase in refund saving or repayment planned by financially distressed families after Medicaid eligibility
7 percent	Average increase in rate of refund saving or debt repayment after Medicaid eligibility planned by financially struggling families
0	Difference in savings rates after Medicaid eligibility for low-income households that are not struggling

NOTE: Financially struggling households are defined as those that rank in the top third of an index that weighs five measures of financial difficulty, including whether the household missed a home payment and whether the household has more debts than assets.

Our key observation is that the most financially stressed families plan to save or pay down debt with a larger share of their tax refund once they become eligible for medical coverage under Medicaid. These households reported that they intended to put 4.4-percentage points more of their tax refund toward savings or debt repayment. That equates to a roughly 7 percent increase in the rate of refund savings or debt repayment (the average rate among financially constrained households is 67 percent). It also equates to almost $100 less in intended near-term consumption.

We observed a difference in savings behavior between low-income people who were struggling with bills and low-income people who were getting along better. Financially stressed families—which we identified using an index constructed from five indicators of financial difficulty, such as whether a household has missed a home payment—planned to save more when eligible for Medicaid.[7]We identify households in financial distress through an index constructed using a principal component analysis that combines a set of variables that proxy for financial distress: a dummy variable that identifies households with negative net worth; an indicator that identifies households that report skipping meals in last six months due to affordability issues; an indicator of having been delinquent on rent or mortgage payments during the last six months; an indicator that identifies households with at least one bank account overdrawn during the last six months; and an indicator of having had a credit card declined in the last six months. The first principal component explains 40 percent of the variation in these variables and has positive weights on all the variables. We define households as being in financial distress if they are in the top third of this index. In contrast, eligibility seemed to make no difference in savings rates for the average low-income household that did not meet these stress criteria.

Methodology

The effect of Medicaid eligibility on savings behavior is addressed in a working paper from the Center for Social Development and Olin Business School at Washington University in St. Louis and the Center for Household Financial Stability at the Federal Reserve Bank of St. Louis.

Our research draws on a database of survey responses from 67,000 low-income households that used a free online tax-preparation software, which is part of the IRS Free File Alliance, when filing their taxes from 2013 to 2017.[8]Statistical compilations disclosed in this document relate directly to the bona fide research of and public policy discussions concerning savings behavior as it relates to tax compliance. Compilations are anonymous and do not disclose information containing data from fewer than 10 tax returns or reflect taxpayer-level data with the prior explicit consent from taxpayers. Compilations follow the tax preparer's protocols to help ensure the privacy and confidentiality of customer tax data. The households in this data set consented to the use of their anonymized responses for research.

The data include information on tax refund size and how much of their refunds households planned to save, to use to pay down debt, or to spend. We used this information to measure their propensity to save or pay down debt rather than consume. The data also allowed us to distinguish which families were eligible for or received Medicaid. Finally, the data contain rich demographic information as well as a number of measures of financial distress, which allowed us to determine which families were struggling the most to pay their bills.

We studied the share of the tax refund each household intended to allocate to savings or debt reduction rather than to consumption. To the extent that uninsured health shocks reduce the net worth of households that are not eligible for Medicaid, net worth may mechanically be lower for such households. While still being highly correlated with actual savings behavior, our intention-based savings measure does not suffer as much from this drawback as does measuring savings as changes in a household's assets. [Back to text]

The second issue in this series will discuss how households' views on the duration of their Medicaid access factored into their saving choices.

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Endnotes

1. Saez, Emmanuel; and Zucman, Gabriel. "Wealth Inequality in the United States since 1913: Evidence from Capitalized Income Tax Data." *The Quarterly Journal of Economics*, 2016, Vol. 131, No. 2, pages 519–78.
2. Gruber, Jonathan; and Yelowitz, Aaron. "Public Health Insurance and Private Savings." *Journal of Political Economy*, 1999, Vol. 107, No. 6, pages 1249–74. Maynard, Alex; and Qiu, Jiaping. "Public Insurance and Private Savings: Who is Affected and by How Much?" *Journal of Applied Econometrics*, 2009, Vol. 24, No. 2, pages 282–308.
3. Hubbard, Robert; Skinner, Jonathan; and Zeldes, Stephen. "Expanding the Life-Cycle Model: Precautionary Saving and Public Policy." *The American Economic Review*, 1994, Vol. 84, No. 2, pages 174-9.
4. According to Medicaid.gov, over 16.3 million additional individuals were enrolled in Medicaid (including the Children's Health Insurance Program, or CHIP) in October 2017 as compared to the period prior to the start of the first Marketplace open enrollment period (July through September 2013). According to Census.gov, the U.S. population was 326.4 million in October 2017. Medicaid income eligibility limits are available from the Kaiser Family Foundation at: https://www.kff.org/data-collection/trends-in-medicaid-income-eligibility-limits/
5. Sabat, Jorge; Gallagher, Emily; Gopalan, Radhakrishnan; and Grinstein-Weiss, Michal. "Medicaid and Household Savings Behavior: New Evidence from Tax Refunds." Working Paper. May 16, 2018. https://ssrn.com/abstract=3052026 or http://dx.doi.org/10.2139/ssrn.3052026
6. In particular, states that expanded Medicaid allow able-bodied adults earning up to 138 percent of the federal poverty line to enroll. States that did not expand Medicaid typically have very low income limits. For example, as of 2015, Virginia had an income limit of 45 percent of the poverty line for parents and no access for childless adults.
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